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Message Text

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ACTION EB-03

INFO OCT-01 SS-14 ISO-00 EUR-10 NEA-06 PM-03 FEA-01 CIEP-01

TRSE-00 CIAE-00 INR-10 NSAE-00 RSC-01 DODE-00 SPC-01

L-02 OMB-01 NSC-10 NSCE-00 DRC-01 PRS-01 SAM-01 /067 W
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P R 221601Z FEB 74
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC PRIORITY 8542
INFO AMEMBASSY BONN
AMEMBASSY BERN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY LUXUMBOURG
AMEMBASSY STOCKHOLM
AMEMBASSY OSLO
AMEMBASSY JIDDA PRIORITY
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L COPENHAGEN 0521

LIMDIS

E.O. 11652: GDS
TAGS: ENRG, DA, SA
SUBJ: ENERGY: DANISH-SAUDI ARABIAN OIL NEGOTIATIONS

REF: A. STATE 33771 B. COPENHAGEN 474

BEGIN SUMMARY. FROM SOURCES REQUIRING FULL PRO-
TECTION WE ARE TOLD THERE IS EXCELLENT POSSIBILITY
DANES WILL SIGN BILATERAL DEAL WITH SAG FOR 35,000
BARRELS PER DAY OVER TWO YEAR PERIOD. ALLEGED
PRICE IS 68-70 PERCENT OF POSTED PRICE FOR LIGHT
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ARABIAN CRUDE ($8.00-8.25), WHICH DANES EX-

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PECT TO GO DOWN TO ABOUT $6.50 PER BARREL WHEN, AS THEY HAVE BEEN GIVEN TO EXPECT SOON, SAG POSTED PRICE DROPS BELOW $10.00 END SUMMARY.

1. SOURCE OF INFORMATION ON DANISH-SAG OIL NEGOTIATIONS IDANSK ESSO PRESIDENT DONALD LATIMER, A SEASONED EXXON VETERAN, WHO HAS ASKED THAT HE AND HIS SOURCE, THE PRESIDENT OF DANISH OIL AND NATURAL GAS COMPANY (DANOIL), GERHARD JENSEN, BE FULLY PROTECTED. IN LATIMER'S VIEW, JENSEN IS RESPONSBILE, KNOWLEDGABLE AND HAS GOOD CONTACTS AMONG PEOPLE VERY CLOSE TO, OR WITH ACCESS TO, THE INNER COUNCILS OF YAMANI'S MINISTRY. TO ASSURE CONTINUING ACCESS TO THIS INFORMATION, IT IS ESSENTIAL THAT THESE SOURCES NOT BE DIVULGED.

2. LATIMER HAS OBTAINED FOLLOWING ADDITIONAL INFORMATION FROM JENSEN:

A. JENSEN CLAIMS HE HAS FULL AUTHORITY, AND THE MONEY, TO NEGOTIATE AN OIL DEAL WITH SAG.

B. HE BELIEVES THERE IS 90 PERCENT CHANCE THAT DEAL WILL BE SIGNED DURING FONMIN'S VISIT TO SAUDI ARABIA NEXT WEEK. POSSIBLE HITCHES ARE UNCERTAINTIES ABOUT STATE OF NEGOTIATIONS BE-TWEEN SAG AND MAJORS ON BUY BACK ARRANGEMENTS. EVEN IF PROBLEMS OCCUR, JENSEN THINKS HE STILL WOULD HAVE 50 PERCENT CHANCE OF DEAL LATER.

C. HE IS OFFERING TO PURCHASE 35,000 BARRELS PER DAY FOR TWO YEAR PERIOD AND HAS BEEN OFFERED F.O.B. PRICE FOR ARABIAN LIGHT AT 68-70 PERCENT OF POSTED PRICE OR $8.00-8.25 A BARREL. HOWEVER, JENSEN SAID HE IS RELIABLY INFORMED THAT SAG WILL SOON BRING POSTED PRICE BELOW $10.00 WHICH, BY HIS CALCULATATIONS, WILL GIVE HIM PRICE QUOTED REF B OF ABOUT $6.50 A BARREL. CONFIDENTIAL

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D. JENSEN NOW HAS WRITTEN ASSURANCES FROM DANSK ESSO AND SHELL TO PROCESS 20,000 AND 10,000 BARRELS:DAY, RESPECTIVELY. REMAINING 5,000 BARRELS/DAY WOULD GO TO SWEDEN. (FROM COMMENTS MADE BY JENSEN, LATIMER GATHERED THAT SOME FORM OF AGREEMENT EXISTS BETWEEN SWEDISH AND DANISH GOVERNMENTS COORDINATING SEARCH AND SOME

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SHARING OF OIL.)

E. JENSEN WOULD NOT DISCLOSE CREDIT TERMS
UNDER NEGOTIATION.

F. WHEN ASKED HOW HE COULD BE OFFERED
68-70 PERCENT OF POSTED PRICE WHEN FRENCH GOT
ONLY 93 PERCENT, JENSEN SAID HE WAS TOLD BY
PETROMIN THAT FRENCH ACTUALLY GOT VERY GOOD RPICE
IN VIEW OF VERY HIGH PRICE SAG HAS TO PAY FOR
FRENCH AIRCRAFT.

3. ACCORDING TO JENSEN, DANISH GOVERNMENT IS
NOW SERIOUSLY CONSIDERING GOING INTO OIL REFINING
AND EVEN GETTING ONE FOOT INTO MARKETING BY
SELLING TO SPECIAL WHOLESALE CUSTOMERS. THEY
FEEL THEMSELVES FORCED IN THIS DIRECTION BECAUSE
OIL PRODUCERS ARE INCREASINGLY INTERESTED IN
GOVERNMENT DEALS. JENSEN QUOTED IRAQI SOURCES
AS TELLING HIM THAT IN 2-3 YEARS THEY WILL BE
SELLING ONLY TO GOVERNMENTS AND THEN ONLY IF
THESE GOVERNMENTS ARE IN OIL BUSINESS (PRESUM-
ABLY AT LEAST REFINING) AND PROVIDING SOME DOWN-
STREAM PARTICIPATION FOR IRAQ.

4. CONSEQUENTLY, JENSEN IS NOW TALKING TO ESSO
AND, APPARENTLY, ALSO TO SHELL ABOUT POSSIBI-
LITIES OF THEIR ENLARGING THEIR REFINERIES,
PROVIDING FOR EQUITY BOTH FROM DANISH GOVERN-
MENT AND "AN OPEC COUNTRY."

5. EMBASSY COMMENT: FONOF CONTINUES TO DENY
TO US THAT ANY OIL DEAL WITH SAG IS IMMINENT
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AND ASSURES US THAT FONMIN HAS NO PLANS TO SIGN
OIL DEAL DURING HIS VISIT TO SAUDI ARABIA.
THESE FONOFF SOURCES (E.G., UNDER SECRETARY
JENS CHRISTENSEN) ARE USUALLY FRANK AND OPEN
WITH US. IT IS POSSIBLE THEY ARE NOT INFORMED
SINCE AN UNUSUAL AMOUNT OF SECRECY SEEMS TO
SURROUND JENSEN'S WHEELINGS AND DEALINGS (E.G.,
MOBIL REP HAS NOT HEARD A HINT OF ANY DEALINGS
WITH SAG, AND THE MEDIA, WHICH EARLIER GAVE JENSEN
CONSIDERABLE PUBLICITY,HAS BEEN COMPLETELY
QUIET ABOUT HIM OVER THE PAST MONTH. EVEN THE
FOREIGN MINISTER'S VISIT TO SAUDI ARABIA HAS OB-
TAINED MINIMAL PRESS COVERAGE.) IT MAY BE THAT
DANES ARE EMBARRASSED ABOUT MAKING A BILATERAL
DEAL, EVEN IF IT WOULD REPRESENT ONLY ABOUT

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5 PERCENT OF OIL CONSUMPTION, AT SAME TIME THEY
CRITICIZE FRENCH AND BRITISH FOR THEIR DEALS.
IT COULD ALSO BE THAT JENSEN IS UNRELIABLE OP-
TIMIST BUT THERE IS TOO MUCH EVIDENCE HE IS
PROCEEDING AS IF HE REALLY HAS A DEAL IN REACH.
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